

Message Text

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72

ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 PM-07 H-03 INR-10 L-03 NSAE-00

NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15 USIA-15

ACDA-19 IO-13 MC-02 EB-11 OMB-01 TRSE-00 DRC-01 /133 W

----- 010658

R 200039Z SEP 73

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 5251

SECDEF WASHDC

INFO CINCPAC

C O N F I D E N T I A L KUALA LUMPUR 4149

CINCPAC FOR POLAD

OSD PASS USAF/DSAA

E.O. 11652: GDS

TAGS: MASS, MY

SUBJECT: INCREASES IN F-5 RELATED COSTS

REF: A. USDAO KUALA LUMPUR 070808Z SEP 73 (NOTAL)

B. USDAO KL 280950Z AUG 73 (NOTAL)

1. SUMMARY: GOM DISMAY OVER SHARP INCREASES IN PRICES OF SPARES AND AUXILIARY EQUIPMENT OF FOREIGN-SUPPLIED MILITARY EQUIPMENT RECENTLY EXPRESSED TO AMBASSADOR. EMBASSY, BELIEVING RECENT INCREASES IN F-5 RELATED ITEMS COULD BE SOURCE OF INCREASING FRICTION WITH GOM, SEEKS JOINT STATE/DEFENSE ACTION TO CLARIFY SITUATION. END SUMMARY.

2. AT PARTY FOR USARPAC DEPCINC LT GEN WILLIAMS SEP 7, MINISTRY OF DEFENSE SEC GEN SAMAD NOOR TOLD AMBASSADOR GOM INCREASINGLY ALARMED AND ANGRY OVER PROFITEERING BY FOREIGN ARMS SUPPLIERS WHO QUOTE MODEST INITIAL PRICES FOR EQUIPMENT THEN DEMAND ASTRONOMICAL PRICES FOR SPARES AND ANCILLARY ITEMS NECESSARY TO KEEP EQUIPMENT OPERATING.

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ALTHOUGH ACCUSATION NOT RPT NOT EXPLICITLY DIRECTED

AGAINST THE US, SHARP INCREASES IN COST OF EQUIPMENT RELATED TO ROYAL MALAYSIAN AIR FORCES'S F-5'S HAVE DISMAYED MIDDLE LEVELS OF RMAF CONCERNED WITH PROJECT, EMBASSY WORRIED LEST US CREDIBILITY SUFFER TO THE EXTENT THAT GOM WILL SEEK OTHER SUPPLIERS FOR ITEMS SUCH AS FIGHTER AIRCRAFT, LARGE HELICOPTERS AND TRANSPORTS.

3. PROBLEM IS TYPIFIED BY GOM DESIRE TO PURCHASE MOBILE TRAINING SETS FOR F-5 AIRCRAFT, AND SUBSEQUENT DOUBLING OF PRICES THESE ITEMS. GOM TREASURY IS EXTREMELY TIGHT-FISTED AND APPROVAL FOR F-5 PURCHASE REPRESENTS ENORMOUS EFFORT BY RMAF AND DEFMINISTRY TO CONVINCE TREASURY PLANES NOT ONLY NEEDED BUT ALSO THAT PRICE IS FAIR AND THAT APPROXIMATELY \$40 MILLION CEILING WILL NOT BE EXCEEDED. FOUR TRAINING SETS WERE OFFERED IN JUNE 1972 AT 1,004,000 US DOLLARS. ON AUGUST 17, 1973, RMAF ELECTED TO PURCHASE ONLY TWO TRAINING SETS TO REMAIN WITHIN CEILING AND WAS SHOCKED TO LEARN FROM USAF THAT PRICE FOR TWO HAD RISEN TO US DOLLARS 1,124,006. WITH AMBASSADOR'S CONCURRENCE, DAO RELAYED RMAF'S REQUEST FOR EXPLANATION THIS INCREASE TO USAF/LGFXX AUG 28, BUT REPLY NOT YET RECEIVED. IN MEANTIME, ON SEP 6, USAF PROVIDED COST DATA SUPPLEMENT TO AUG 17 MESSAGE HIKING PRICE BY ADDITIONAL DOLLARS US 145,663. DAO HAS REPLIED THAT BEFORE INFORMING RMAF OF FURTHER INCREASE EMBASSY MUST HAVE ADEQUATE REPLY TO AUG 28 QUERY. (FYI EMBASSY UNDERSTANDS RMAF NOW REVIEWING NEED FOR ANY TRAINING UNITS BECAUSE OF COST INCREASE. IN DAO'S VIEW A DECISION NOT TO PURCHASE WOULD INHIBIT EFFECTIVE UTILIZATION OF F-5'S BY MALAYSIANS.)

4. ANOTHER CURRENT PROBLEM IS ATTEMPT BY USAF TO SUBSTITUTE RECONDITIONED USG-FURNISHED INSTRUMENTATION SUCH AS ALTIMETERS, AIR-SPEED INDICATORS, ETC., FOR QUOTE NEW AND UNUSED UNQUOTE INSTRUMENTS SPECIFIED IN F-5 PROGRAM DIRECTIVE SIGNED JULY 1972.

5. ACTION: REQUEST STATE EA/IMS, DOD/ISA/SA, USAF/LGFXX AND OTHER INTERESTED WASHINGTON OFFICES CONSULT AND PROVIDE EXPLANATION AND GUIDANCE.

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